

Message Text

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E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: INDIAN DEBT RESCHEDULING

REF: STATE 225470

SUMMARY: SINCE THE EMBASSY'S ANALYSIS OF INDO-BLOC TRADE AND PAYMENTS LAST NOVEMBER THE SITUATION HAS CHANGED CONSIDERABLY. THE INCREASED COST OF INDIA'S IMPORTS FROM THE BLOC (MAINLY USSR) HAS SHARPLY REDUCED THE BILATERAL TRADE SURPLUS OUT OF WHICH INDIA PAYS FOR BLOC IMPORTS AND DEBT SERVICE TO EASTERN EUROPE. IMPORTS PLUS DEBT SERVICE PAYMENTS NOW EXCEED INDIAN EXPORTS TO THE BLOC. THE 1973 SOVIET GRAIN LOAN HAS MITIGATED THE NET RESOURCE FLOW PROBLEM. INDIA HAS TRIED HARD BUT WITHOUT SUCCESS TO GET MORE AID FROM THE SOVIETS. WE SUGGEST THE BANK MEMORANDUM OF UNDERSTANDING EXPRESS THE DESIRABILITY OF DEBT RELIEF BY SOVIETS RATHER THAN FOCUSING ON RESOURCE TRANSFER AND AID LEVEL. END SUMMARY.

1. EMBASSY'S A-393 OF NOVEMBER 3, 1973 SHOWED THAT IN THE PERIOD IFY 70/71 THROUGH 72/73 INDIA AMASSED SURPLUSES IN TRADE WITH THE SOVIET BLOC COUNTRIES, AND THE USSR IN PARTICULAR, LARGER THAN NECESSARY TO FINANCE IMPORTS AND MAKE DEBT SERVICE PAYMENTS IN THAT PERIOD. IN THIS SITUATION, - IN WHICH INDIA WAS IN EFFECT "LENDING" RUPEES TO THE BLOC COUNTRIES-THE CONCEPT OF DEBT RELIEF

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OR RESCHEDULING WAS NOT APPLICABLE. DURING THE SAME PRIOD, NET

TAL RESOURCE TRANSFER WAS TOWARD THE BLOC COUNTRIES, BECAUSE INDIAN EXPORTS EXCEEDED THE INFLOW OF GOODS - COMMERCIAL IMPORTS, AID-FINANCED IMPORTS, MILITARY LOAN GOODS, AND MILITARY PURCHASES - FROM THE BLOC COUNTRIES.

2. 1973/74 WITNESSED A SHARP CHANGE IN THE SITUATION. MODEST INCREASES IN THE QUANTITIES IMPORTED AND LARGE INCREASES IN THE PRICE OF PETROLEUM PRODUCTS, NON-FERROUS METALS, FERTILIZER, NEWSPRINT, AND THE LIKE IMPORTED FROM THE USSR SHARPLY INCREASED INDIA'S BILATERAL IMPORT BILL, CUTTING ITS TRADE SURPLUS WITH THE SOVIET UNION AND THE BLOC AS A WHOLE. WHILE IN 1972/73 INDIA HAD A SURPLUS OF \$327 MILLION WITH THE BLOC AS A WHOLE AND \$265 MILLION WITH THE USSR ALONE, THE CORRESPONDING FIGURES FELL TO \$92 MILLION AND \$45.2 MILLION, RESPECTIVELY, IN IFY 73/74, FAR SHORT OF THE AMOUNT NEEDED TO MEET DEBT SERVICE CLAIMS OF BLOC CREDITORS. DRAMATICALLY BOOSTING AID-FINANCED IMPORTS, THE SOVIET GRAIN LOAN AGREEMENT SIGNED IN OCTOBER 1973 GREATLY DIMINISHED THE NEGATIVE-FLOW-OF-RESOURCES PROBLEM INDIA WAS EXPERIENCING WITH THE SOVIET BLOC IN THE YEARS BEFORE 1973/74. ABOUT \$200 MILLION WORTH OF SOVIET LOAN GRAIN (1.13 MILLION METRIC TONS AT \$180 PER TON) REACHED INDIA IN IFY 1973/74; AND THE OTHER \$160 MILLION WORTH (870,000 TONS) WILL ARRIVE THIS FISCAL YEAR. ADDITIONAL AID DISBURSEMENTS FROM THE SOVIET BLOC COUNTRIES OF AN ESTIMATED \$20 MILLION WILL BRING ECONOMIC AID INFLOW FROM THE BLOC TO \$180 MILLION IN 1974/75 FAR EXCEEDING DEBT SERVICE ON CIVILIAN ECONOMIC AID ESTIMATED BY THE BANK AT \$72 MILLION, \$55 MILLION OF WHICH TO THE USSR.

3. THE FOREGOING DOES NOT TAKE INTO ACCOUNT MILITARY TRANSACTION, ABOUT WHICH INFORMATION IS TIGHTLY HELD. BUT WE HAVE HEARD THAT TOTAL SERVICE ON SOVIET DEBT-MILITARY CIVILIAN-WAS \$240 MILLION IN 1973/74. DEDUCTING SERVICE ON CIVILIAN DEBT OF \$55 MILLION, IT APPEARS THE BURDEN OF SERVICE ON MILITARY DEBT IN 73/74 WAS \$185 MILLION. DURING APPROXIMATELY THE SAME PERIOD (CALENDAR YEAR 1973) THE USSR EXTENDED INDIA MILITARY CREDITS OF \$127 MILLION. USING CREDITS EXTENDED AS AN IMPERFECT SURROGATE FOR DELIVERIES, AID, NET OF REPAYMENTS ON MILITARY ACCOUNT WAS NEGATIVE IN 73/74 BY SOMETHING AROUND \$60 MILLION. PROSPECTS FOR 1974/75 ARE FOR MILITARY DEBT SERVICE OF ABOUT \$20 MILLION LESS, WITH DELIVERIES DOWN BY ABOUT THE SAME AMOUNT, RESULTING

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IN REPAYMENTS IN EXCESS OF NEW MILITARY AID AT ABOUT THE SAME LEVEL AS THE YEAR BEFORE. (FIGURES IN THIS PARAGRAPH TOTAL DEBT SERVICE, MILITARY DEBT SERVICE, AND MILITARY CREDITS ARE CLASSIFIED SECRET/NOFORN).

4. AGAINST THIS BACKGROUND PLANNING MINISTER D.P. DHAR WENT TO MOSCOW IN SEPTEMBER TO HEAD THE INDIAN DELEGATION TO THE INDO-SOVIET JOINT ECONOMIC COMMISSION. WHILE THERE DHAR WORKED AS-

SIDUOUSLY TOWARD TWO RELATED OBJECTIVES. FIRST, TO OBTAIN FROM THE SOVIETS CONTINUED AND STEPPED-UP IMPORTS OF NEEDED COMMODITIES ON CREDIT, RATHER THAN AGAINST CURRENT RUPEE CLEARING ACCOUNT BALANCES; SECONDLY, TO GET THE SOVIETS TO STRETCH AND SOFTEN PAYMENT SCHEDULES ON DEBT ALREADY ACCUMULATED. A NUMBER OF SOURCES NOW SUGGEST TO US THAT DHAR GOT NOWHERE; BUT, RATHER, WAS TOLD THAT INDIA WOULD BE EXPECTED TO SCALE DOWN IMPORTS AND RAISE EXPORTS IF NECESSARY TO MAKE ITS PAYMENTS TO MOSCOW.

5. INDIA WOULD LIKE NOTHING BETTER THAN INCREASED DELIVERIES OF PETROLEUM PRODUCTS, FERTILIZER, NON-FERROUS METALS, STEEL PRODUCTS, NEWSPRINT, AND CERTAIN TYPES OF MANUFACTURERS, ESPECIALLY OILFIELD AND POWER GENERATION EQUIPMENT FROM EAST EUROPE AND THE USSR. BUT THE BLOC COUNTRIES ARE BY AND LARGE NOT OFFERING CREDITS, AND INDIA HASN'T GOT THE "CASH" IN ITS BILATERAL CLEARING ACCOUNTS OWING TO THE PRESSURE OF DEBT SERVICE. IRONICALLY, RAPIDLY RISING PRICES ON IMPORTS FROM THE BLOC MAY BOOST THE NET VALUE OF RESOURCES TRANSFERRED TO INDIA IN 74/75 TO THE \$300 MILLION FIGURE USED BY THE WORLD BANK OR EVEN HIGHER. BUT SHORT OF ANOTHER BIG GRAIN LOAN THE PROSPECTS FOR A BIG BOOST IN RESOURCE INFLOW UNDER AN AID RUBRIC ARE DIM.

7. OF MORE HELP TO INDIA AT THIS JUNCTURE - NOW THAT INDIA IS NO LONGER ACCUMULATING MORE CLAIMS ON BLOC OUTPUT THAN IT CAN SPEND - WOULD BE LANGUAGE IN THE BANK'S MEMORANDUM OF UNDERSTANDING RECOGNIZING IN SOME FASHION THE PRESSURE THAT HIGHER PRICES ON BLOC COMMODITIES HAVE PUT ON INDIA'S ABILITY TO SERVICE BLOC DEBT, AND CALLING ON THE BLOC TO ACCEPT DEFERMENT OF REPAYMENT (RESCHEDULING) COMPARABLE TO THAT PROFERED BY THE WESTERN DONORS. MOYNIHAN

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